Your money
Your future

Financial Planning Newsletter - Edition 4, 2011

Women and the super myth

Careful retirement planning is important for all Australians, but it's especially important for women.

The pay disparity between men and women, combined with the different lengths of time each group spends in the workforce, means many women end up with much less super in retirement than their male counterparts.

The ongoing casualisation of many traditionally female jobs and the fact that much unpaid work falls largely to women further compounds the problem.

When a woman takes a break from paid work to raise children or care for family members, she not only forgoes her wages, but also a portion of her retirement savings, as superannuation payments are linked to paid work.

The figures make stark reading. A 30-year-old woman with an annual salary of $50,000 who takes six years out of the workforce could miss out on $58,000 in retirement savings by the time she is 65.*

According to the Association of Superannuation Funds of Australia, in 2006 the average superannuation balance for women was half that of men: $35,520 compared with $69,050. And the average retirement payout for men is more than double that of women: $136,000 compared with $63,000.†

The current 9 per cent superannuation guarantee paid by employers is already deemed to be insufficient to fund a comfortable retirement according to the Labor Government which plans to increase compulsory super contributions. This leaves most women reliant on the pension to fund their retirement either in part or in full.

Meanwhile more than half of women in their 60s have no superannuation at all, reflecting lower rates of participation in the workforce and the relatively recent introduction of the superannuation guarantee in 1992.

The problem is increased by the fact that many women believe their partner's superannuation will be enough to cover them both and they don't worry about having a Plan B.

Women need economic independence, regardless of how supportive and generous their partners are, in order to have a sense of control and help them to make their own financial decisions.

Sadly, relying on a partner for support may not be an option for all women. An increasing number of Australians are

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* This example is calculated using ASIC's FIDO Superannuation calculator – http://www.fido.gov.au/fido/fido.nsf/byheadline/Superannuation+calculator?openDocument – and based on various assumptions including, but not limited to: an annual salary of $50,000, six years out of the workforce, super invested for 30 years, a return of 7 per cent pa, with all earnings reinvested, no administration fees or charges deducted, no salary-sacrifice contributions, no after-tax contributions, invested in a balanced portfolio (ie $232,000 – $174,000 = $58,000 is lost super).

† Clare, Ross 2008 'Retirement Savings Update', ASFA 2008 – http://www.superannuation.asn.au/Reports/default.aspx, http://www.superannuation.asn.au/mr080211/default.aspx

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Women and the super myth continued

affected by relationship breakdowns, with divorce rates rising from 28 per cent to 33 per cent of marriages between 1987 and 2002.‡

And women can least afford reductions in their retirement income. Their higher life expectancy – women outlive men by almost four years – means they will need their retirement savings to last for longer.§

This means it's even more important for women to look at boosting their super with strategies such as additional contributions, super splitting, spouse contributions and co-contributions.

The more women put into super at an earlier age, the greater the benefit they can accrue from compounding interest.

Using the government's co-contribution scheme is one way women can increase their super savings in their less-productive years. If a woman is earning less than $61,920 per annum, she may be entitled to a government co-contribution of up to $1,000 when she makes a personal after-tax contribution of $1,000 to her super.

Spouse contributions are another option. If a woman takes time out of the workforce and is earning less than $10,800 in total income, her partner could contribute up to $3,000 into her superannuation fund and receive a tax offset of 18 per cent, providing a tax saving of up to $540 each financial year. Where a woman's income is above $10,800, the offset is calculated on $3,000 reduced by $1 for every dollar her income exceeds $10,800.

Super splitting is another strategy from which some couples can benefit. It may be advantageous for the spouse on the higher marginal tax rate to salary sacrifice or make additional contributions and split part of this off to the spouse on a lower income.

Whatever strategy works best, there is no doubt that early and careful planning can reduce the impact that years spent outside the workforce and pay disparity can have on women's retirement savings. And the sooner you start saving, the greater the benefit in the long run.

‡ ABS 4102.0 Australian Social Trends 2007

§ Superannuation Savings Gap for Women, IFSA / Rice Warner, March 2010 – http://www.ifsa.com.au/resource-centre/publications.aspx

Insurance for the self employed

Most self-employed people accept the need to protect their income in the event of sickness or injury with income protection insurance. However, an equally important type of risk insurance is available, but is widely undersold and misunderstood – business expenses insurance.

What is business expenses insurance?

Business expenses insurance provides a monthly benefit to cover the ongoing fixed expenses when a business owner can't work due to sickness or injury. Like income protection insurance, the premiums are tax deducible.

Who is eligible?

Business expenses insurance is designed to assist self-employed individuals, including sole traders and business partnerships (typically this can include up to 5 partners) who generate income through personal exertion.

What is covered?

Eligible expenses for this type of insurance must be ongoing, and may include items such as:

- office rent
- interest payments on a business loan
- salaries of non-income generating staff
- leasing of equipment such as cars, telephones
- insurance and legal fees, and
- property rates and taxes.

How much cover would be required?

An important factor to consider when calculating the required monthly benefit is to determine what would happen to the revenue of the business if the person to be insured was unable to work for a period of time.

A sole trader for example, would need to insure 100 per cent of their fixed ongoing expenses. However, an individual working in a partnership may only need to insure 50 per cent of expenses (or the amount they are responsible for).

How is a business expenses insurance claim paid?

When submitting a claim for business expenses, proof of the fixed expenses will be required. A copy of an accountant's report, profit and loss statements and BAS statements are commonly submitted for consideration. The benefit period is generally 12 months but some companies allow an additional 6 to 12 months of benefit payments if the expenses at claim time are less than the actual insured monthly benefit.

Is business expenses a 'set and forget' policy?

Business expenses policies should be reviewed on a regular basis – yearly or whenever a change occurs in a business. Because business expenses are likely to fluctuate on an annual basis it's important to review your cover to ensure the benefit amount is right for you.